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NAVY GRADUATE COMPTROLLERSHIP PROGRAM

DIFFICULTIES IN CONNECTION WITH MILITARY BUDGET MAKING

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INTRODUCTION

The Military Services are perpetually being criticized for waste and inefficiency.

Beginning with the Founders of the Government of the United States, the men who framed and adopted the Constitution, and continuing until the present, there has been continuous and vocal criticism of things military.

The American statesmen who were the architects of our political system were working at a time, and in an area, when there was considerable criticism¹ of the military. As pointed out by Elias Huzar, during the time of Alexander Hamilton and James Madison, it was considered by many that disciplined armies bore "a malignant aspect to liberty and economy;" that they might become a drain on the nation's resources and a means of enslaving the people; that liberty might once more be "crushed between standing armies and perpetual taxes," not to mention economic "regimentation" to insure supply of the sinews of war. The Founders were concerned lest the military and naval forces they authorized be employed not only against foreign foes but also against domestic freedoms. The conclusion drawn by Elias Huzar was that, at the time of the framing and adoption of the Constitution, "by consensus, standing armies were a threat to civil liberties and economic prosperity."²

1

Elias Huzar, The Purse and the Sword (Ithaca, New York: Cornell University Press, 1950), p. 7.

2

Ibid.

Senator Paul H. Douglas has very conveniently described numerous examples that constitute, in effect, continuing criticisms of the Military Services.¹ According to Senator Douglas, "the military authorities are, in fact,² probably the greatest wasters of manpower and materials in the country;" it was reported by former Defense Secretary Louis Johnson that the Navy had on hand³ enough anchors to last fifty years; Senator Douglas reports that the Department of Defense had on hand supplies of certain jeep parts sufficient to last up to⁴ 104 years; that "there is a general failure among procurement officers to⁵ realize the need for economy;" that the specifications for ping-pong balls⁶ required five and a half pages of single-spaced typing. These examples have been picked at random from among a numerous variety from which to choose. It is sufficient for the purposes of this paper to state that they all are in some way related to the problems involved with military budget making.

Another typical and more recent example was an article in The Wall Street Journal⁷ under the heading: "Advisory Group Finds Waste, Inefficiency in Military Budget Making."

My purpose in preparing this paper is not to excuse the military for past mistakes, nor to attempt to explain subsequent failures, but rather to create an understanding of the major problems involved in the annual preparation of budget estimates, so that criticisms in connection with military budget making may be more intelligently appraised.

¹ Paul H. Douglas, Economy in the National Government (Chicago: University of Chicago Press, 1952).

² Ibid., p. 146. ³ Ibid., p. 150. ⁴ Ibid., p. 150. ⁵ Ibid., p. 154.

⁶ Ibid., p. 173.

⁷ The Wall Street Journal, November 4, 1954, p. 20.

CHAPTER I

SOME PRINCIPAL DIFFICULTIES

Chapter I attempts to highlight some of the more important factors that complicate and make difficult the estimates process in preparation of the budget. Some definitions are furnished to facilitate the discussion in subsequent chapters.

The mechanics of government budget preparation include involved and lengthy processes. During recent years the time factor has increased tremendously in importance. Not only has the period of time between Congressional approval of an appropriation and the receipt of the goods and services authorized become increasingly important, and much longer, but the period of time between the initial preparation of budget estimates and Congressional approval has also increased. In Chapter II these links between budget preparation and budget execution will be examined in more detail, and an attempt will be made to indicate the complexity of this time-consuming process.

There are inherent difficulties incident to integrating planning, programming, budgeting, and operating, in the Military Services. It is usually recognized that these functions must be closely and intimately related if the maximum benefits are to be derived from the annual budget estimates. It is essential that these differing concepts be correlated to the greatest possible extent.

Two distinct approaches to the budgeting process are usually recognized;

they are the historical budget principles, supporting legislative control, and those principles designed from the point of view of executive management.¹ It would appear that the most effective budgeting will require the reconciliation of these two distinct approaches.

It will be recalled that Communist aggression in Korea began in June 1950. Obviously, this state of affairs would be expected to be reflected in military budget estimates for subsequent periods. Actually, the projected cost of combat in Korea was omitted from the annual budget estimates every year after fiscal year 1951. The effects of this high-level policy were to further complicate the estimating and reviewing processes in connection with military budget making.

Although most detailed descriptions of the principal steps in the estimates process in preparation of the budget indicate that "agency ceilings", on the basis of the President's decisions, are set approximately six months prior to submission of budget estimates to Congress,² this information, even though possibly available to the Director of the Bureau of the Budget and other high-level authorities, is not available at the working level where the budget estimates are being prepared. This condition results in "crash" reductions in budgetary estimates to conform to a ceiling or top limit imposed from above at a time when most departmental budget estimates are essentially completed.

1

Harold D. Smith, The Management of Your Government (New York: McGraw-Hill Book Company, Inc., 1945), sec. 2, chap. vii.

2

Douglas, Economy in the National Government, part 1, chap. iii.

Budgets, and budget estimates, have been defined in numerous ways. The Office of the Assistant Secretary of Defense (Comptroller) defines them as follows:

budget, n. (1) A statement, in financial terms, of projected or expected operations of an accounting entity for a given period. When applicable, it should include a statement of the effect of such operations on financial condition at the end of the period. (2) (Govt) A formal estimate of future revenues, obligations to be incurred, and expenditures to be made during a definite period of time. (A budget for a succeeding period frequently is supported by comparative figures for current and preceding fiscal periods.)

business-type budget, n. A statement, in financial terms, of projected or anticipated operations of an accounting entity (q.v.) for a given period. It usually represents a goal -- not a limitation -- and may be revised from time to time within a period to reflect changing conditions which may have an effect on future operations.

departmental budget, n. A budget prepared on behalf of a single Department or Agency of the Government.

budget estimate, n. An amount estimated for any element included in a budget.

budget execution, n. The implementation of the budget program as adjusted by contingencies during the applicable fiscal period.

budget justification, n. The supporting statements and data used to prove the requirement of the amount in a budget estimate.

budget of the United States, n. A budget for the Government of the United States submitted annually by the President to the Congress reflecting estimated receipts, expenditures and appropriations proposed, the financial condition of the Treasury and comparative amounts for current and preceding years with such other detail as is required by law.¹

The Office of the Comptroller of the Navy refers to the budget, as approved by Congress, as the overall financial plan against which the Navy will operate in the fiscal year.

The Navy Comptroller Manual defines budget estimate as follows:

The budget estimate of the Department of the Navy is a detailed estimate of the sums required to be appropriated for the Naval Establishment to support the Navy Program Objectives. The Navy Program Objectives are prepared by the Chief of Naval Operations assisted by the Comptroller of the Navy, and are approved by the Secretary of the Navy.

1

Office of the Assistant Secretary of Defense (Comptroller), Glossary of Terms used in Comptroller Activities, (Washington: 25 January 1952).

2

Office of the Comptroller of the Navy, The Navy Budget in Brief for Fiscal Year 1955, (Washington: 30 June 1954).

3

Office of the Comptroller of the Navy, Navy Comptroller Manual, Vol. II (Washington: 4 February 1952).

Senator Ralph E. Flanders has the following concept of a performance budget:

A performance budget is one in which all costs incidental to the accomplishment of a specific job or objective are consolidated into an identifiable project, with projects logically grouped into primary functions and in which, insofar as possible, fiscal responsibility and management responsibility are parallel. It contemplates a separation of capital expenditures from current operating expenditures. The performance budget is designed to focus attention upon the general character and relative importance of the work to be done or upon the service to be rendered, rather than upon the things to be acquired such as personal services, supplies, equipment, etc.¹

It is generally agreed that all of the Military Services have made progress in the direction of performance budgeting, with the Navy having perhaps approached more closely to the standards demanded by the Congress. However, there are still exceptions in all the Military Services, with military personnel costs being the classical example of non-performance in a performance budget. The testimony of Mr. H. Lee White, Assistant Secretary of the Air Force is considered as being quite clear and illustrative concerning this problem:

Question 5.-Why have not military personnel costs been identified with the function to which the cost relates in the preparation of performance budgets?

Answer.-Military personnel costs have not been included in the budgets for operating functions but are shown separately for several reasons:

(a) Because the Air Force appropriation structure approved by the Congress provides that all military costs will be grouped under one appropriation heading.

(b) The Congress has consistently indicated its desire to control the troop strength in the Military Establishment by specific appropriations.

(c) Central regulation and administration is indicated as the most economical procedure because of the substantial body of law and regulation presently governing the pay and employment of military personnel.²

1

U.S. Congress, Senate, Hearings before the Preparedness Subcommittee No. 3 of the Committee on Armed Services, U.S. Senate, 83rd Cong., 1st Sess., on Implementation of Title IV, National Security Act of 1947, as Amended, Nov. 2, 3, and 4, 1953 (Washington: Government Printing Office, 1954), p. 10.

2

Ibid., p. 111.

CHAPTER II

THE ESTIMATES PROCESS

Formulation of the annual Navy budget estimates is a huge task which requires wide participation. It has been estimated that the annual cost of preparing the Federal budget estimates is \$30,000,000.¹ The Assistant Secretary of the Navy, in December 1951, estimated that the preparations of the annual Navy budget estimates were costing approximately 5 to 8 million dollars.² The major portion of this cost was for manpower hours alone. There is no reason to believe that these costs have decreased in subsequent years.

A flow chart showing the development of annual Navy budget estimates is shown in Figure 1.

These steps are described in considerable detail in the Navy Comptroller

Manual:

022050 PRINCIPAL STEPS IN PREPARATION OF BUDGET

The annual budget estimate of the Navy is prepared in the following main steps:

1. the Director of the Bureau of the Budget requests the Secretary of Defense to submit the Department of Defense budget estimate for an ensuing fiscal year;
2. the Secretary of Defense provides policies, assumptions and guide lines for budget preparation, including over-all strategic concepts and force levels developed by the Joint Chiefs of Staff, and directs the Secretary of the Navy to prepare the budgetary requirements of the Department of the Navy.

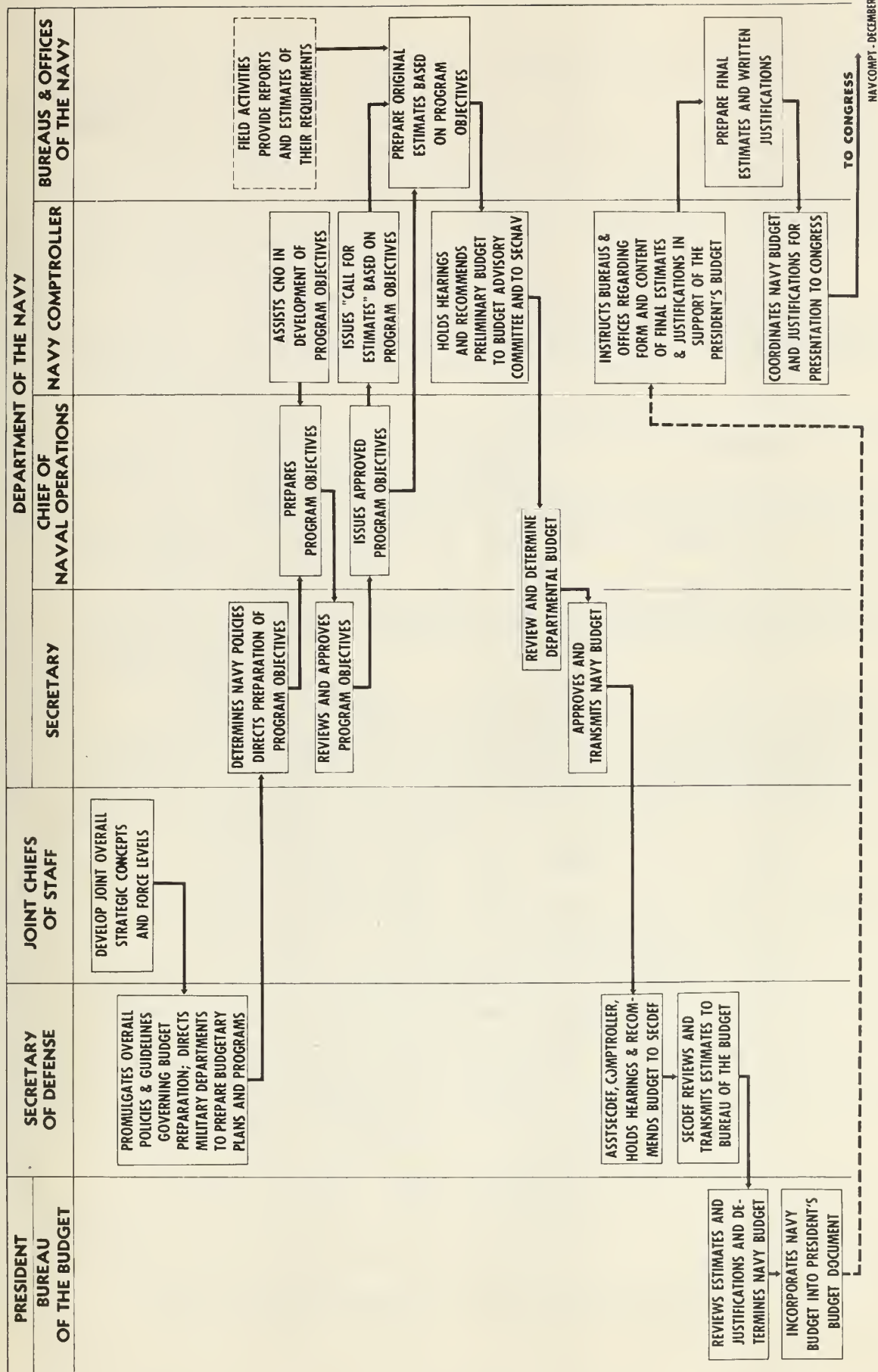
1

Paul Haase, "\$20 Million Just to Draft Budget," The Controller, February, 1954, p. 57.

2

Memorandum from the Assistant Secretary of the Navy for the Under Secretary of the Navy, December 20, 1951.

DEVELOPMENT OF THE NAVY BUDGET



3. the Secretary of the Navy determines the Department of the Navy policies, directs preparation of and reviews and approves the Navy Program Objectives;

4. with the assistance of the Comptroller of the Navy, the Chief of Naval Operations prepares the Navy Program Objectives for issue to the bureaus and offices of the Department of the Navy, at which time the Comptroller of the Navy issues a "Call for Estimates" requesting bureaus and offices to submit their requirements and the estimated cost thereof to meet the Navy Program Objectives;

5. the Comptroller of the Navy holds hearings; reviews the estimates of the bureaus and offices to assure propriety, soundness, economy, and compliance with the Objectives; makes revisions as required; and instructs the bureaus and offices as to the form and content of final estimates and justifications;

6. the Secretary of the Navy, after review and revision by the Budget Advisory Committee, approves and transmits the Department of the Navy budget estimate to the Secretary of Defense;

7. the Comptroller of the Department of Defense holds hearings, reviews the budget estimate, coordinates the budgets of all the military departments, and recommends the budget to be submitted by the Secretary of Defense to the Bureau of the Budget;

8. the Director of the Bureau of the Budget reviews the estimates and justifications, makes revisions to show the policy of the President, and prepares the President's budget document for submission to the Congress by the President.

O22051 BY CONGRESS

The budget presented to Congress by the President is thoroughly reviewed and investigated first in the House of Representatives, then in the Senate. An appropriation bill, containing the budget figures as modified by changes agreed upon by both the House and the Senate, is passed by Congress and forwarded to the President for his signature.

O22052 BY THE PRESIDENT

The appropriation bill, when signed by the President, becomes a law and an appropriation act.

O22053 BY THE TREASURY DEPARTMENT AND THE GENERAL ACCOUNTING OFFICE

Upon receipt of a copy of the appropriation act, the Treasury Department draws an appropriation warrant and forwards it to the General Accounting Office for countersignature. The General Accounting Office analyzes the appropriation act. Each appropriation warrant, if determined to be in accordance with the act, is countersigned, the amount recorded, and the countersigned warrant returned to the Treasury Department. The Treasury Department records the amount of each appropriation. A copy of each warrant is forwarded to the Navy Department as a notification that the appropriation is available for obligation and expenditure.¹

Following the major policy decisions by the President and members of his Cabinet, including the Director of the Bureau of the Budget, concerning

broad budget policy, and the resulting tentative ceiling for the Federal budget estimates, the Department of Defense will receive from the Bureau of the Budget a call for budget estimates. This call can be expected in June or early July for the fiscal year beginning approximately one year later.

The first step in Navy budget formulation, within the Department of Defense, is taken by the Joint Chiefs of Staff, who develop joint over-all strategic concepts and force levels. These broad determinations are then passed to the Secretary of Defense who issues an annual directive setting forth budgetary responsibilities; policies and assumptions governing plan preparation; standards with respect to training, aircraft operations, manpower utilization, etc.; and establishing the Department of Defense budget estimates time table. This directive is based on planning at the National level, and encompasses considerations that have been coordinated with the President, the Department of State, the National Security Council, and other high-level policy-making activities. However, this first step has not worked out in practice. Generally, if received at all by the Secretaries of the Army, Navy, or Air Force, these "Secretary of Defense Guidelines" have come too late to be of any assistance, and the Services have had to proceed without the benefit of over-all policies and planning guides governing budget preparation furnished by the Secretary of Defense.

Upon receipt of the Secretary of Defense directive, or if none is forthcoming, then without it, the Secretary of the Navy directs plan preparation to go forward for the Naval Establishment, and prescribes such instructions regarding Navy policies and plans as he deems appropriate and necessary. In the preparation of these plans, the Secretary of the Navy is advised by the Chief of Naval Operations and the Navy Comptroller. The Chief of Naval Operations prepares and promulgates a budget-guidance document known as "Budget Program

Objectives." These plans are based on plans of the Joint Chiefs of Staff concerning forces, ships, aircraft, personnel, etc. These Budget Program Objectives interpret and make applicable to the Navy, in more specific terms, the more broadly stated rules received from, or assumed to be approved by, higher authority.

As soon as the Budget Program Objectives have been approved by the Secretary of the Navy and promulgated, the Navy Comptroller issues a "Call for Estimates." This document, transmitted to the bureaus and offices of the Department of the Navy, including the Commandant of the Marine Corps, cites the Secretary of Defense Guidelines, if available, and the Navy's Budget Program Objectives as the documents on which Navy budget programs will be based. Essentially, it contains instructions as to format and timing, but in addition, cites certain specific data which are to be prepared and submitted with the budget estimates book as "back-up" or substantiating information. These back-up data, generally in tabular form, are intended for use by the budget analysts to aid them in studying the budget programs and in determining that budget programs are within the intent of the Budget Program Objectives and Department of Defense policies.

As a matter of general practice, the Navy bureaus do not wait for the call for estimates by the Secretary of the Navy (Comptroller of the Navy) to start their preparation of budget estimates. The process of assembling data which would be required in any event in the preparation of budget estimates would have already commenced. However, the data could not be put in budget program form until the call for estimates had been received from the Comptroller of the Navy. It is at this point that the problems of budget formulation really begin, and it then becomes evident that no set of rules can be written in such detail and specific terms as to be uniformly interpreted by all of the bureaus and offices of the Department of the Navy. Efforts are made, therefore, by the

Office of the Comptroller of the Navy to assure that proper interpretations are made, although the real impact of misinterpretations of guidance documents is not known until the budget estimates have been submitted.

After the bureaus and offices of the Department of the Navy have prepared and submitted their budget estimates, as per schedule, the estimates, still considered to be in the formulative stage, are reviewed and analyzed in detail by the Estimates and Analysis Division of the Office of the Comptroller of the Navy. The purposes of this review and analysis include: determination that the budget estimates conform to Budget Program Objectives, and to the Secretary of Defense and Bureau of the Budget policy guidance; development of areas requiring policy decisions; assurances that the budget estimates meet criteria for economy, feasibility, and efficiency; assurances that the budget estimates provide for proper balance between inter-related programs; familiarization of the Comptroller and his principal assistants and staff members with the contents of the budget estimates.

As a result of review and analysis of the budget estimates by the Office of the Comptroller of the Navy, changes from previous budgets, and trends, are determined; divergence, if any, from budgetary plans are determined; basis for pricing is learned; and the inclusion of unsupported programs and items are ascertained.

As the review and analysis continues, the cognizant bureaus and offices of the Department of the Navy are contacted and their budget estimates discussed to clarify questionable programs and other areas, and to develop additional information.

Following this review and analysis by the Estimates and Analysis Division of the Office of the Comptroller of the Navy, the Comptroller and his principal assistants hold their budget hearings with the cognizant bureaus and

offices of the Department of the Navy. At this time, representatives of the Chief of Naval Operations present detailed program plans and directives, and the bureaus and offices justify their budget estimates. This phase of the review generally takes about six weeks, and it is during this period that the Office of the Comptroller of the Navy develops in detail those areas that are considered to require policy decision from the Chief of Naval Operations and/or the Secretary of the Navy. After further clarification or policy redetermination from higher authority, the Office of the Comptroller of the Navy prepares mark-up recommendations, which, when approved by the Chief of Naval Operations and the Secretary of the Navy, are distributed to the bureaus and offices of the Department of the Navy. At this time, the recipients of these marked-up budget estimates are given an opportunity to submit appeals, which are reviewed and resolved by the Budget Advisory Committee; as a result of the determinations of the Budget Advisory Committee, and as approved by the Secretary of the Navy, the budget estimates are thereby determined for the Navy, and these budget estimates are then transmitted to the Secretary of Defense.

The Comptroller of the Department of Defense transmits the budget estimates of all the military services to the Bureau of the Budget. The schedule requires their submission on or before 15 September.

Then follows the budget hearings by the Bureau of the Budget and the Department of Defense. After the necessary revisions have been made, the budget estimates are incorporated into the President's budget, and submitted to the Congress in January.

Following detailed Congressional review and hearings on the budget estimates, the passage of the Appropriation Acts, usually in June or July, determines the status of the budget for the fiscal year then beginning.

The foregoing discussion of the development of annual budget estimates

was presented to indicate the complexity of this time-consuming process. Many of the initial steps are required to be taken during the first half of the calendar year and actually begin eighteen months in advance of the fiscal year for which the estimates are prepared, or thirty months in advance of the close of such fiscal year.

The military budgets, with their exceedingly long span embracing both budget preparation and budget execution, can hardly be considered only as an annual proposition. As former President Truman wrote in one of his budget messages:

This fact is that the financial program of the Government cannot be planned in terms of a single fiscal year. It must be planned in the light of security, economic, and budgetary goals-not just for the ensuing year but for three and even four years ahead.¹

Generally speaking, there is a period of approximately three years for general procurement items obtained by the Bureau of Ordnance between their inclusion in budget estimates and their receipt.

A chart showing the expected lead-times for Navy prototype ships is shown in Figure 2.

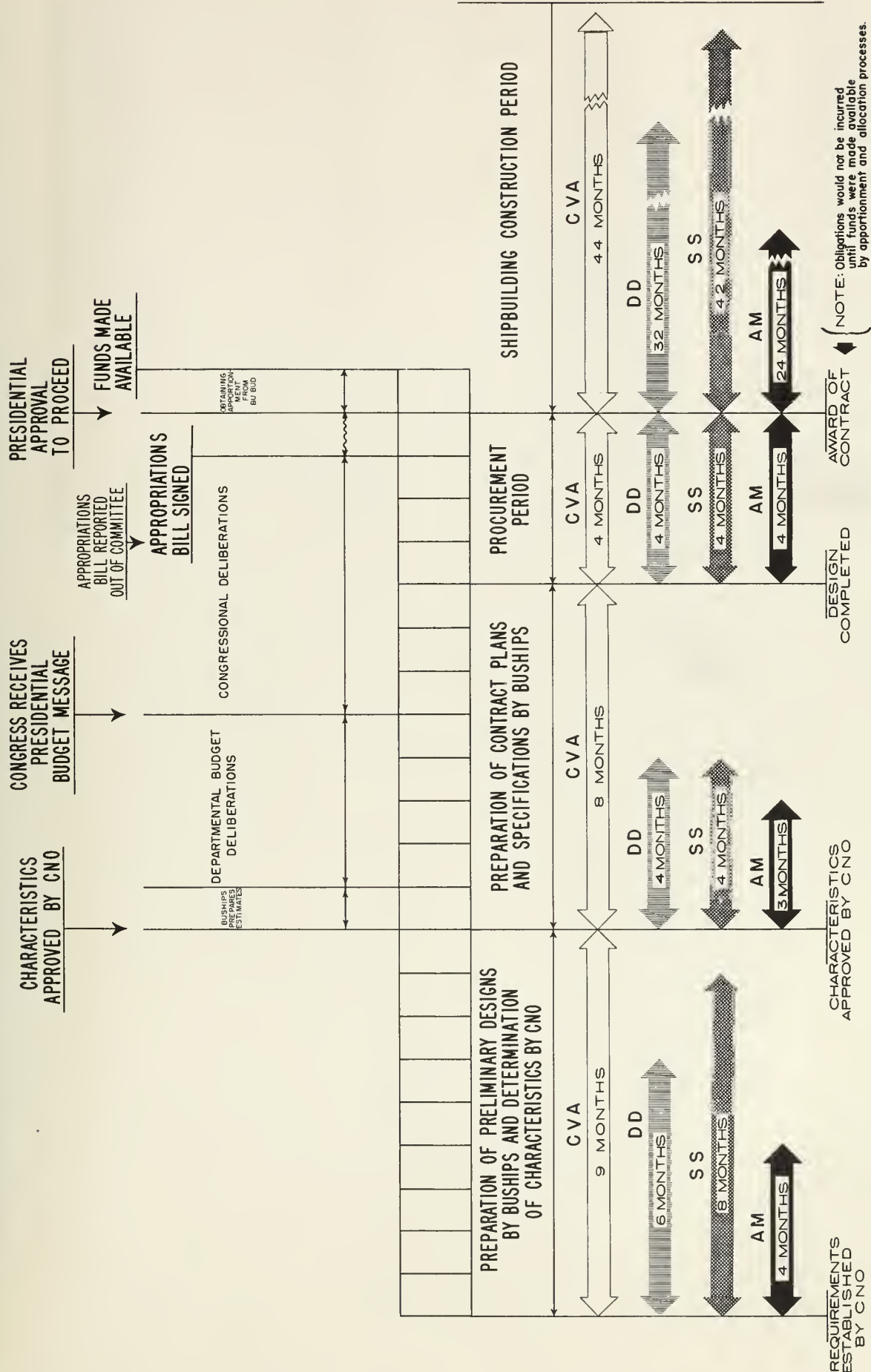
The "USS Forrestal" is an extreme example of the time factor in connection with budget estimates. Funds were obtained by the Navy from Congress in the budget for fiscal year 1952 for this ship. Actual building time is approximately four years. Allowing approximately nine months for the preparation of preliminary designs by the Bureau of Ships and the determination of characteristics by the Chief of Naval Operations; another eight months for the preparation of contract plans and specifications by the Bureau of Ships;

1

The Budget of the United States Government for the Fiscal Year Ending June 30, 1954, p. M 54, quoted in Frederick C. Mosher, Program Budgeting: Theory and Practice (New York: American Book-Stratford Press., Inc., 1954), p. 43.

CHRONOLOGY OF A TYPICAL NAVY PROTOTITLE

INTERRELATION OF BUDGETARY AND LEGAL STEPS WITH DESIGN AND CONSTRUCTION



approximately four months to award the contract; and four years for building, the time factor has become almost bewilderingly important. It is submitted that the inherent difficulties involved in planning and budgeting for items involving such long lead-times make military budgeting both difficult and cumbersome.

CHAPTER III

INTEGRATION OF PLANNING, PROGRAMMING, BUDGETING, AND OPERATING

The relationship between the provision of guide lines affecting plans, forces, and programs on the one hand, and money limitations on the other hand, obviously presents a major problem in the financing of Naval programs. Budgeting and planning are necessarily linked; in fact, one is part and parcel of the other. However, there are real difficulties involved in integrating planning, programming, budgeting, and operating. An excellent general summary of these problems has been presented by Frederick C. Mosher:

From the standpoint of the development of the military plans that are precedent to military budgets, the Joint Chiefs of Staff and its constituent organizations are dominantly important. The Joint Chiefs, its committees, and the Joint Staff which services them are military bodies consisting of officers serving ex officio or detailed or assigned to this duty for a limited number of years from the three services. The machinery of the Joint Chiefs thus provides continuing channels for the flow of information, plans, and points of view back and forth between the services and the coordinating center.

A major difficulty of military planning in the recent past has resulted from the tardiness or the sporadic arrival of the basic agreed plans from the hub of the wheel--the Joint Chiefs. It is therefore doubly significant that a new "plan for planning" was approved by the Joint Chiefs of Staff in 1952 and is now being put into effect. This is a carefully designed scheme for annual planning, geared to the calendar and comprehensive in its scope. When it is fully implemented, it should provide the services with a firm base from which to launch their internal planning activities. It will furnish assurance to planners and managers at lower echelons that the JCS plans will arrive on time in accordance with an understood schedule, thus reducing the necessity of anticipatory planning and "crash" adjustments.

Under the new scheme, the planning activities of the Joint Staff, as well as the plans themselves, are divided into three main types according to the time period covered. Long-range plans are projected annually a number of years in advance and are useful and necessary especially for the guidance of research and development activities. Short-range plans, likewise prepared annually, are designed to guide current operations and to provide immediate plans in the event of emergency. Unlike the long-range plans, which are

essentially "requirements" documents, the short-range are premised on currently available resources and capabilities.

Standing midway between these two, both as to time covered and as to the type of planning approach, are plans of medium range. They are designed to translate national policy into strategy and objectives that are considered to be attainable. They are thus basically requirements statements, but they take into consideration current and foreseeable resource capabilities. These are the most important from the budget standpoint since they provide the premises for most of the programming of the services, for the preparation of the annual budgets, and for mobilization planning. For purposes of medium-range planning, a D-Day is assumed annually to occur on July 1 at the conclusion of a budget year. The plan itself covers the period following D-Day, but it forms the basis for the preparation of the budget in the fiscal year preceding D-Day. Thus a plan applicable to the fiscal years 1957 and 1958 would be based upon an assumed D-Day of July 1, 1956 and would furnish the basis for the budget for fiscal year 1956.

One of the difficulties of the projected scheme is the distance in time between the development of the plan and the period to which the plan applies. This problem is itself partly caused by the length of time involved in the budget process. If one year, or a little less, is allowed for the development of service programs based upon the JCS plans, and another year, or a little more, is allowed for the development, review, and passage of the annual budget, it is apparent that the JCS plans should be completed about two years before the budget year is to begin, or three years before the assumed D-Day. To this period must of course be added the several months that the joint agencies themselves require for the development and consideration of the basic plan. It is apparent that this phase of the planning process must proceed on assumptions that are vulnerable to frequent and sometimes violent change in the intervening period.

Another difficulty, perhaps inevitable in a planning process of such scope and dimension, is the tremendous complexity of the system. Not only must the plans for different terms of time be meshed with each other, but, at any given moment, plans of the same term but applicable to different years will be in various stages of development and application. These, too, must be related. And all must be related to the planning and operations that are simultaneously proceeding at both higher and lower echelons. A decision modifying one plan at one time, as, for example, a cut imposed by the Bureau of the Budget on the estimates for a given year, might directly or indirectly force modifications on a whole series of JCS and service plans, not only for that year but for many other years as well, and not only for medium-range plans but for plans of both shorter and longer range. In a fast-moving world, keeping plans up-to-date and in tune with the times and with each other is no small problem.

The divorce between military planning and budgetary planning is an additional difficulty. The Secretary of Defense and his staff aids apparently have no official role in developing or reviewing the basic plans of the joint agencies. When they undertake to analyze the budgetary offspring of the joint plans, more than a year after their preparation, they must either accept the premises as "given" or threaten to injure or warp the sense of the plans themselves, plans which they had no official part in creating and for which they are not responsible. Conversely, the Joint Chiefs of Staff as a body has no further role or responsibility with

respect to the annual budget although the budget is presumably predicated upon the basic objectives and plans JCS has initially approved.¹

Comments concerning the failure of the military services to properly integrate their planning, programming, budgeting, and operating functions have not been confined to text writers. Similar comments were noted in a very recent report by a committee studying military financial management. The Advisory Committee on Fiscal Organization and Procedures, set up in August, 1953, by Defense Secretary Charles Wilson to recommend improvements in the fiscal structures of the Department of Defense has gone on record as deploring the "failure to recognize the need for conducting both military planning and budgeting as an integrated operation."²

¹

Mosher, Program Budgeting: Theory and Practice, chap. iii.

²

The Wall Street Journal, November 4, 1954, p. 20.

CHAPTER IV

CONFLICTING BUDGET PRINCIPLES

The military budget is both an instrument of legislative control and executive management. It is generally considered that there is some conflict between these two objectives, but that reconciliation is possible.

The former Director of the Bureau of the Budget, Harold D. Smith, defines the historical budget principles that are devised primarily as aids of legislative control as follows:

1. The principle of publicity. The main stages of the budget process, which include executive recommendations, legislative consideration and action, and budget execution, should be made public.

2. The principle of clarity. The budget should be understandable to every citizen. As was said by a British writer in 1764: "The administration has condescended . . . to explain the budget to the meanest capacity."

3. The principle of comprehensiveness. The budget should contain expenditures and revenues on a gross basis, reflecting all governmental activities without exception, and should show the surplus available for debt retirement or the deficit to be met by new revenue legislation or borrowing.

4. The principle of budget unity. All receipts should be recovered into one general fund for financing all expenditures. This principle condemns earmarking of revenues for specific purposes of expenditure except in cases of trust accounts or in cases where a special and direct relationship exists between receipts and expenditures.

5. The principle of detailed specification. Receipts and appropriations should be expressed in detailed specification; transfer of items should be permitted only in exceptional cases.

6. The principle of prior authorization. The budget should be submitted, considered, and acted upon in advance of the period during which the expenditures are to be made; it should include estimates for all foreseeable needs, thus reducing as far as possible requests for supplemental and deficiency appropriations. Budget execution should stay strictly within the legislative authorization and should be checked by an auditing agency reporting to the legislature.

7. The principle of periodicity. Appropriations should be authorized for a definite period of time. An appropriation not used at the end of the

period should generally lapse or be reappropriated with specific amount and purpose.

8. The principle of accuracy. This principle demands that budget estimates should be as accurate as possible, and condemns "padding" of expenditure estimates or providing for hidden reserves by underestimating revenues.¹

The same author also defines the budget principles that are devised primarily from the point of view of executive management as follows:

1. The principle of executive budget programming. The budget, as recommended, reflects the program of the chief executive. When enacted it becomes the work program of the government, reflecting all government responsibilities and activities in their political, economic, and social aspects. Budget formulation, therefore, must be geared closely and directly to the formulation of the chief executive's program as a whole. Budgeting and programming are the two sides of the same coin; both must be under the direct supervision of the chief executive. This principle holds true for all governments-Federal, state, local.

2. The principle of executive budget responsibility. The appropriation ordinarily authorizes, it does not direct, an agency to spend money. The executive branch is directed to fulfill the function established by law or implied in the language of the appropriation measure. In other words, the appropriation is not a mandate to spend; nor does it establish a "vested right" of an agency. The agency is responsible, under the direction of the chief executive, for executing the intent of the legislation in the most economical manner. The chief executive, for his part, has the responsibility of seeing that the agency programs are brought into accord with legislative intent and are executed with the greatest possible economy.

3. The principle of budget reporting. Preparation of the budget, legislative action, and budget execution must be based on full financial and operating reports flowing up from the administrative units of the government. Current information should be furnished the executive as well as the legislative branch on the work progress with respect to various programs and projects, obligations incurred, expenditures made, revenues received, individuals employed, objectives accomplished, and other relevant facts. Budgeting without such reporting would be blind and arbitrary.

4. The principle of adequate budget "tools." Executive responsibility requires adequate administrative tools. The chief executive must have under his direct supervision a properly staffed budget organization. In addition, certain powers must be available to the executive in order to assure the most economical execution of legislative intent. These include, among others, authority to make monthly or quarterly allotment of appropriations and to set up reserves out of appropriations. The reserves are to be used in case of contingencies or are to lapse unexpended if changed conditions permit

1

Smith, The Management of Your Government, sec. 2, chap. vii.

execution of the congressional intent with less than the amount appropriated. An agency reporting system, such as was mentioned above, is also an essential tool of executive budgeting.

5. The principle of multiple procedures in budgeting. Modern government includes very different types of operations. Functions of everyday administration; long-run construction and developmental projects; quasi-commercial operations, such as purchase and sale of goods; or banking operations-these require varying procedures for effective management. Although all government functions, without exception, should be reflected in the budget, the methods of budgeting may vary for different types of governmental activities. Efficient management of quasi-commercial operations requires immediate response to changing market conditions and is less subject to definite advance programming than, for instance, are operations of current administration. Budgeting of quasi-commercial operations may therefore differ from budgeting of administrative activities.

6. The principle of executive budget discretion. Effective and economical management may be hindered if appropriation items are too narrowly defined. The budget document must contain a great amount of detail for the information of the legislature and the guidance of the executive. It is desirable, however, that the appropriations be made for broadly defined functions of an agency, or subdivisions of an agency, in harmony with legislative determination of the current objectives of government. To the executive branch should be left the determination of the precise means of operation to achieve the purposes set forth by the law.

7. The principle of flexibility in timing. The budget should contain provisions that permit immediate adjustment to changing economic conditions with which fiscal policy must cope. Flexibility in timing can, for example, be accomplished if the legislature appropriates funds for certain construction and developmental programs for an extended period, say, of five years. Timing of the program could then be modified by the executive in accord with economic necessities.

8. The principle of two-way budget organization. Although budget preparation and budget execution must be directed by the chief executive, efficient budgeting requires the active cooperation of each agency and its major units. There must be in each agency a budget office with functions for that agency similar to those of the government-wide budget office. The budgeting and programming work of the agency must be interrelated under the direct responsibility of the agency head. The established budget officer assists his superior in the administrative control of the subdivisions of the particular agency; he also transmits the agency's views and proposals to the central budget bureau. Budgeting is not only a central function, but a process that should permeate the entire administrative structure. Traffic between the central office and the agency offices responsible for budgeting and programming should move on a two-way rather than a one-way street.¹

The principles of legislative control are centuries-old, and reflect the continuing attempt to tighten the legislative control of the executive.

1

Ibid.

Budget principles of executive management are based largely on the experience of states, municipalities, and private business organizations in the United States.

The most obvious conflict exists between the legislative control principle of "detailed budget specification" and the executive management principle of "executive budget discretion." Legislators have sometimes urged the use of a narrowly defined itemization of appropriations, while administrators claim that a broadly defined appropriation is more conducive to economical management. Legislators have a good case when they say that broad appropriation language may deprive them of their proper means of control and may permit an administrator to violate legislative intent. The former Director of the Bureau of the Budget, Harold D. Smith, suggests that the solution to this apparent conflict is that legislative intent should be effectuated, not by limiting the appropriation more severely, but by organizing budget management more¹ effectively.

Another example of apparent conflict with the historical principles occurs in the management principle of "flexibility in timing." Budget flexibility with respect to timing is of decisive importance if fiscal policy is to play its role as an instrument of economic development. The principle of "periodicity" implies that unused appropriations should lapse or be reappropriated at the end of each fiscal year. The purposes of budget flexibility in timing and legislative control can be, in some measure, reconciled by the use of multiple-year appropriations.

Another example is the apparent conflict between legislative interest in "budget clarity" and management need for "multiple procedures in budgeting" adapted to various types of military operations.

¹

Ibid., p. 95.

These conflicting interests and principles make federal budgeting in general, and military budgeting in particular, difficult. Since legislative control and executive management serve the same ends, a continuing attempt must be made to reconcile those cases of apparent conflict between the purposes of legislative control and the needs of executive management.

CHAPTER V

BUDGETING FOR KOREAN OPERATIONS

As previously noted in chapter ii, an important factor in recent military budgets has been the policy regarding expenses for Korean operations. Following the outbreak of Communist aggression in Korea in June, 1950, it would be reasonable to expect that subsequent annual budget estimates to have contained items to cover the projected cost of combat in Korea. Actually, these items were omitted from the annual budget estimates every year after fiscal year 1951. Instructions were handed down to the military departments each year to assume, in the compilation of their budget estimates, that there would be no further combat in Korea after the first of the fiscal year for which they were budgeting. The real reasons for this policy are not altogether clear. As with other items in the budget estimates, it may have been an acceptance of the practicable difficulties of estimating so far in advance. It may have been that, at the time the budget estimates were being made, the Administration really believed that the Korean hostilities would have ended before the beginning of the fiscal year for which they were budgeting. The possibility cannot be discounted that the Administration considered estimates in the budget for Korea an admission that an unpopular war would be continuing a year and a half later, and that such prediction would be a political hazard. At any rate, and whatever the reason, the actual cost of Korea was taken up in supplemental estimates and in annual estimates for subsequent years. The effects of this policy were to

further complicate the estimating and reviewing processes, and to put the Military Services about a year behind in estimating and obtaining funds, particularly for procurement purposes.

CHAPTER VI

CEILINGS FOR BUDGETARY PURPOSES

The question of agency ceilings is one that is subject to continuous debate, particularly among naval personnel at the working level where initial budget estimates are being prepared. Writers on the subject have taken various approaches to the matter. Senator Paul H. Douglas gives the impression that a ceiling is set in about June for the budget estimates then being prepared for the fiscal year starting about a year later.¹ Senator Douglas refers to this practice as "a recent change which has proved helpful."²

On the other hand, Frederick C. Mosher states that recent military budget estimates "have largely been made without benefit, or restriction, of ceilings established prior to the budget process."³

In the opinion of the writer, the probable answer is that both views are partly correct. Supporting Senator Douglas's stand, it is probable that the President and the Director of the Bureau of the Budget, among others, have a fairly clear idea of the tentative ceiling that they will permit.

On the other hand, the personnel at the working level, including the bureau level in the Department of the Navy, do not know their ceiling during the period that they are engaged in the initial preparation of their budget estimates.

1

Douglas, Economy in the National Government, part 1, chap. iii.

2

Ibid., p. 49.

3

Mosher, Program Budgeting: Theory and Practice, p. 45.

This may, or may not, be in the best interests of efficient budget preparation.

During the period following World War II, the Military Services, like other departments, had been compelled to budget under a ceiling imposed by the President and the Director of the Bureau of the Budget. In this connection, it is interesting to note that portion of The Forrestal Diaries wherein President Truman is reported to have said that "about \$6 billion a year of our national income would have to go to the service of our national debt and that, of the balance remaining, not more than one-third could be allocated to national¹ defense and this would mean the most careful screening of requirements." This approach was qualified in following years and definitely abandoned with the Korean aggression.

Recent budget estimates have not been so narrowly channeled into ceilings, at least during their initial preparation. The trend has been for the Military Services to be permitted, if not encouraged, to build up their budgetary requirements to meet planned requirements set by the Joint Chiefs of Staff. After completion of their budget requests on this basis, they would be subject to drastic revisions when reviewed by the examiners from the Bureau of the Budget, and the eventual ceiling or top limit imposed from above would result in "crash" reductions in budgetary estimates.

An interesting perspective on budget estimate ceilings is contained in testimony of Lt. Gen. George H. Decker, United States Army, Comptroller of the Army:

General Decker. The guidance goes down in one piece, Senator. We get the guidance from the Office of the Secretary of Defense and transmit that to the field agencies. That provides the basis.

1

Walter Millis (ed.), The Forrestal Diaries (New York: The Viking Press, 1951), p. 160.

Senator Flanders. Does the Secretary of Defense start by telling you "Here is what you are going to be allowed to spend. How are you going to do it?"

General Decker. No, sir; he does not start that way.

Senator Flanders. You say it goes down. How does it go down; in what form?

General Decker. He will tell us, for instance, what forces we will be authorized for the fiscal year. The forces are one large consideration.

Senator Flanders. What goes down are programs and what comes back are appropriations?

General Decker. Estimates to support the programs; that is correct.

Senator Flanders. Budget estimates to support the programs?

General Decker. That is correct, sir.

Senator Flanders. You have never had the experience of being told "Here is all you can have this year. How do you want to spend it?" Have you had that experience?

General Decker. We usually have that experience after we have submitted a budget and it is found to be too large.

Senator Flanders. It is not the initial approach?

General Decker. No, sir, it is not.

The absence of a definite ceiling on the part of an agency preparing budget estimates, such as a bureau of the Department of the Navy, encourages the "requirements" approach. The agency tends to base its budget estimates on the basis of estimated requirements rather than that of available resources. The approach is a detailed justification for what it thinks it may need, rather than what it reasonably expects may be granted. This approach probably encourages inflated budget estimates. While the mechanics of budget estimate preparation would undoubtedly be simplified, and better end-estimates would result, if an agency knew its ceiling while its budget estimates were being prepared, it is not likely that future budget estimates will be prepared with the benefit of ceilings established prior to the budget process. The day to day changes in conditions, the influences of a changing foreign policy, and other factors of our national life will probably prevent such stabilized procedures for an indefinite period.

CHAPTER VII

CONCLUSIONS

Budget formulation and the preparation of budget estimates have developed into a significant phase of Navy program management because the most profound decisions effecting the size, scope, and timing of programs and the use of manpower, materials, and money are made in this phase.

With each fiscal year, the preparation of budget estimates have become increasingly complicated. The budget estimates must be prepared, but it is believed that studies should be made to determine whether or not the complications which have been imposed on budget preparations have reached or are approaching the "make work" stage, and further to determine whether the agencies concerned with budget estimates review have placed requirements for justifications beyond reasonable needs. It is believed that a simpler and more business like approach could be developed and the imposing layers of clearances which now must be obtained for the budget estimates could be reduced. It is further believed that it would not be too difficult for the bureaus and offices of the Department of the Navy to estimate their cost in preparing their budget estimates and it has been suggested that these preparation costs be stated in the budget estimates submission in order to bring to the attention of Congressional groups the unreasonable expense involved in budgetary procedures.

Under present operating practices of the Department of Defense, planning for a budget must begin between one and two years in advance of the

beginning of the fiscal year under consideration to allow adequate time for planning, preparation, reviews and justifications as well as Congressional action. At any given time, the Military Services must have under consideration the current budget which is in the execution stage, the budget for the next fiscal year which is in the process of preparation, review, justification, etc., and the budget for the succeeding year which must be in the planning and preparation stages. It is clearly evident that the preparation of a budget for the third year could result in a large amount of wasted effort in preparation and revisions since the budget for the second year has not been finally determined. It was noted in Chapter II that the assumptions and guide lines furnished by the various echelons above the level of budget preparation frequently were not issued on a timely basis and were subject to many revisions. These conditions have resulted in the preparation of budgets on assumptions made by the Military Services themselves with extensive revisions required at later dates when higher echelon guidance was received. The preparation of the budget estimates presented to the Congress, as differentiated from those prepared during the budgetary process, has in many cases been compressed into too short a period to expect well planned budgets. Every effort should be exerted to shorten the budget cycle by the provision of firm assumptions and guide lines prior to actual budget preparation and the elimination of the successive detailed reviews. The budget reviews at the levels above the bureau level in the Department of the Navy appear to be more detailed than necessary to serve management needs at the higher levels. Greater use of sampling techniques at the site of preparation by review authorities as opposed to submission of voluminous detail appears worthy of study. If reviews are made on the basis of assuring that the budget estimates and past accomplishments are in accordance with strategic plan objectives, the requirements for detailed

item justifications should lessen at each successively higher level, and serve to speed up the entire review process. These changes should permit the adoption of a realistic twelve-month budget cycle from the time budgetary assumptions are given to the Military Services until Congressional enactment of appropriations.

The problems of budgeting for integrated programs are made more difficult by the presently required budget time schedules and detailed review procedures. However, the budgetary problems associated with preparing and reviewing supporting data on employment, production schedules, expenditure estimates, and the many other non-program parts of a budget estimate are almost impossible to handle with the accuracy demanded by present review and deadline requirements.

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